An Independent Firm

CORNERSTONE FINANCIAL SOLUTIONS, INC.

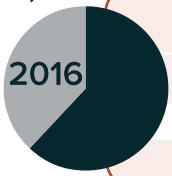
Quarterly Economic Update

4TH QUARTER, 2016

A Review of 2016

For many investors, 2016 was a year of surprises. When viewing the final results of equity returns in 2016, they do not reflect the year's wild ride for both equity and bond investors. In the final quarter of the year, stocks surged, continuing the bull market that is now almost eight years old. Donald Trump's victory as the next President had the investing community thinking about lower taxes, less regulation, pro-business initiatives, and what could be a bumpy ride to unwinding many of the Obama administration's policies.

Since the November 8th election, the stock and bond markets have had large moves. The stock market finished strong after November and December post-election results sent equities higher and higher almost every day. For some analysts it seems like the late gains in 2016 were so strong that they may have eaten into some expected equity gains for 2017 – even if many policies and earnings recoveries do come about. The Dow Jones Industrial Average may not have hit the elusive 20,000 mark, but it closed out the year 2016 at 19,762.60 on December 30 with a gain of 13.4%. The S&P 500 closed out the year up 9.5% and the NASDAQ closed at a gain of 7.5%.



YEAR-END MARKET VALUES

DJIA	19,762.60	+13.4%
S&P 500	2,238.83	+9.5%
NASDAQ	5,383.12	+7.5%

In December, the Fed raised interest rates once again by 0.25%, elevating the U.S. Federal Funds rate to 0.50%-0.75%. The 10-year Treasury ended 2016 with a yield of 2.44%. The 30-year Treasury closed out 2016 with a yield of 3.06%. On the last day of 2015, the 10-year yield was 2.27% and the 30-year yield was 3.01%.

A YEAR THAT DEFIED PREDICTIONS

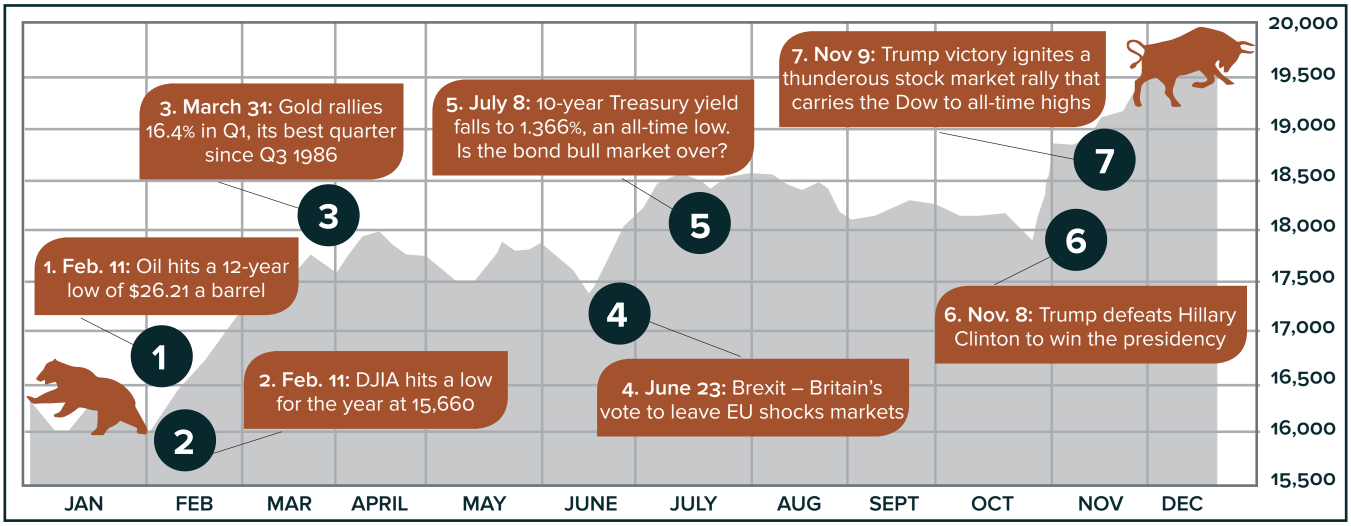
Equity markets started poorly as the Federal Reserve's forecast in 2015 was to have four rate hikes in 2016, but they only had one. Despite all the forecasts of doom and gloom, equity markets ended the year with strong results, mostly coming from the post-election hopes that included looser regulations and tax cuts. *(Source: Barron's 1/2/2017)*

Also, early in the year, oil hit a low of $26.21 a barrel. At that price, some analysts were then forecasting potential mass oil company bankruptcies and a possible U.S. recession, neither of which came true.

One of the next big surprises of 2016 came when polls showed that the United Kingdom was probably going to remain in the European Union when the actual vote was to leave. This event known as "BREXIT" caused the markets to plunge. After a sharp two day drop, the S&P 500 started racing higher again.

The biggest prediction gone wrong was when most polls predicted a victory for Hillary Clinton, but Donald Trump was elected to be the President of the United States.

Recapping the DJIA in 2016: A Year of Surprises



All Eyes on Interest Rates

Although the US Federal Reserve had only one 0.25% rate increase in December of 2016, all year, the prospect of rising rates had many investors paying careful attention.

Many overseas sovereign debts during 2016 were at negative interest rates. The central bankers' ability to offer negative interest rates is a very important story from 2016. It started back on June of 2014 when the European Central Bank (ECB) first offered negative interest rates at -0.10%. Rather than demanding that the central bank pay interest to borrow its money, banks now had to pay the central bank to lend it money.

Negative rates also appeared in Germany, Denmark, Sweden, and Switzerland. Following this trend, the Bank of Japan (BOJ) began charging interest to deposit funds at a rate of -0.10% in January 2016, continuing that trend throughout the year. (Source: seeking Alpha 12/26/2016)

While rates have turned slightly positive in several countries, for investors in 2017 some major questions are: Will the central banks be able to keep markets stable as the Fed tries to lift rates? Will the markets erupt and force the central bank to reduce rates back down towards zero?

2017 Outlook

The year kicks off with a new president, higher rates, stocks at all-time highs and new risks and opportunities.

Goldman Sachs in their 2017 Outlook predicts that, "while we recommend clients remain invested, we have modest return expectations. We expect that a moderate-risk well diversified taxable portfolio will have a return of about 3% in 2017." *(Source: Goldman Sachs 2017 Outlook)*

A USA TODAY review of predictions from 15 Wall Street strategists finds that America's fortunes won't add up to big stock market gains in 2017. They report that the group feels the Standard & Poor's 500 should produce a gain of approximately 4.5%. *(Source: USA TODAY 12/27/2016)*

Michael Sonnenfeldt, the founder and chairman of TIGER 21 feels the only certainty in 2017 is uncertainty. He shares in Forbes that, "perhaps the biggest lesson of 2016, one which certainly carries over into 2017, is that there is no safety in safety." *(Source: Forbes 12/17/2016)*

Safety also comes with a price. According to Deposit Accounts January charts, the rates on one year certificates of deposit (CD's) were 0.50%. Investors' portfolios do not grow fast when they lock in rates of less than 1%. *(Source: www.DepositAccounts.com)*

Most investors attempt to build a plan that includes risk awareness. But, for many investors today's traditional fixed rates will not help them achieve their desired financial goals. Traditionally, bonds have been used as a nice hedge against market risk, but with interest rates projected to rise investors need to be extremely cautious.

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EQUITIES

Many analysts are predicting a volatile ride in equities for 2017. They feel investors need to prepare for equity market pullbacks and/or corrections. The year 2017 starts with the S&P 500 index trading at 19 times last year's earnings. Based on historical results this is considered ambitious, but not ridiculous. Recent corporate earnings have shown slight growth after a year of shrinking and energy stocks are still not near their all-time highs. FactSet tallied estimates for earnings growth of 12% in 2017, but Goldman Sachs is less optimistic. They feel that investors have ridden the bull market for eight years and while they don't expect the ride to end in 2017, they are warning investors to stay vigilant. They are predicting that U.S. equities will increase by 3% in 2017. *(Source: Barron's 1/2/2017, Goldman Sachs 2017 Outlook)*

INTEREST RATES

In December of 2016, the Fed's so-called "dot plot" showed the central bank penciled in three rate hikes in 2017 instead of two under its prior forecast. David Payne, Staff Economist at Kiplinger's magazine, feels that despite the Fed's expectation of three rate hikes, figure on just two in 2017. Diversified portfolios usually have exposure to bonds or interest rate sensitive investments. Even in a rising rate environment, interest rate sensitive investments could play a role in most portfolios. At times, they have offered investors the potential to possibly offset losses in the event of a stock sell off. Investors need to monitor their bond and yield sensitive exposures in 2017, because rising rates can cause bonds to experience a short-term price loss. *(Source: Kiplinger 12/16/2016)*

GLOBAL ISSUES

Investors need to be watchful in 2017 for a potential global recession caused by potential blow-ups in China and Europe. The 2nd and 3rd largest economies in the world enter the year facing many challenges.

China's main challenge is making the shift from an export economy to a consumption economy. In Europe, there are a slew of elections due to take place in 2017. Also, the potential for bank failures in Italy - Europe's third largest economy - could, cause big problems. Any major global crisis will only add to uncertainty and investors know that the equity markets do not like uncertainty. *(Source: Seeking Alpha 1/11/2017)*

5 KEY THINGS TO WATCH FOR IN 2017

- Analysts are expecting low, but positive returns.
- Investors need to be watchful of interest rate increases.
- Global issues could potentially create challenges.
- Volatility is expected.
- Investors should be cautious and focus on their own situations and objectives.

What Should an Investor Do?

For 2017, let's revisit YOUR Strategy. Market volatility should cause you to be concerned, but panic is not a plan. Market downturns do happen and so do recoveries. Because we are committed to helping you plan for your financial security the professionals at Cornerstone provide integrated, comprehensive financial planning with a focus on education and coaching. Your regularly scheduled review is a great time to ensure that you fully understand your time horizons, goals and risk tolerances, and you can call us toll-free at 877-352-9490 any time with questions.

Now is the time to make sure you are comfortable with your investments. Equity markets will continue to move up and down. Even if your time horizons are long, you could see some short term downward movements in your portfolios. Rather than focusing on the turbulence, consider whether your investing plan is centered on your personal goals and timelines. Peaks and valleys have always been a part of financial markets and it is highly likely that trend will continue.

Discuss any concerns with us. Our advice is not one-size-fits-all. While we cannot control financial markets or interest rates, we keep a watchful eye on them and work to keep you continuously informed. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations.

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